

Message Text

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SUBJECT: BELGIAN GOVERNMENT TO LAUNCH ECONOMIC EXPANSION?

REF: (A) BRUSSELS A-57,(B) BRUSSELS 7326

1. ON APRIL 23, THE NATIONAL BANK OF BELGIUM (BNB) ANNOUNCED THAT IT HAD RELAXED SOME OF THE QUOTA RESTRICTIONS IT HAD IMPOSED LAST YEAR ON LENDING BY COMMERCIAL BANKS. IN ADDITION, THE BNB DISCOUNT RATE WAS SIMULTANEOUSLY LOWERED ONE-HALF PERCENT TO 7 PERCENT AND CERTAIN DEPOSITS WHICH THE COMMERCIAL BANKS HAD BEEN REQUIRED TO HOLD IN LOW INTEREST ACCOUNTS WITH THE BNB WERE RELEASED FOR UNRESTRICTED USE.

2. IN MAKING THIS ANNOUNCEMENT, THE BANK SAID IT INTENDED TO EXERT PRESSURE TOWARD THE LOWERING OF ALL INTEREST RATES IN BELGIUM AND TOWARD A SLIGHT LOOSENING OF THE BONDS RESTRICTING THE LEVEL OF LOANS OUTSTANDING FROM COMMERCIAL BANKS.

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IN OFF-THE-RECORD STATEMENTS, THE BANK ADDED THAT THIS

DID NOT REPRESENT THE BEGINNING OF AN EXPANSIONIST POLICY BY

THE BANK BUT RATHER WAS MEANT TO BE ONLY A SLIGHT LOOSENING OF
THE PREVIOUS TIGHTLY SCREWED DOWN LID ON COMMERCIAL BANK CREDITS.

3. IN A SEPARATE BUT RELATED EVENT THE SAME DAY, THE UNIVERSITY
OF LOUVAIN INSTITUTE OF ECONOMIC RESEARCH MADE PUBLIC ITS ECO-
NOMIC REPORT FOR THE FIRST QUARTER AND ITS POLICY RECOMMENDATIONS
FOR THE SECOND QUARTER OF 1975. SINCE THE INSTITUTE IS CLOSELY
IN TUNE INTELLECTUALLY WITH THE ECONOMIC THINKERS OF THE
CURRENTLY DOMINANT FLEMISH CATHOLIC PARTY (CVP), THE
INSTITUTE REPORT MAY BE INDICATIVE OF THINKING CURRENT IN CABINET
CIRCLES.

4. THE LOUVAIN REPORT NOTES THAT BELGIAN GOVERNMENT'S
ECONOMIC POLICY IS TO STRESS ANTI-INFLATIONARY MEASURES AT THE
SACRIFICE, IF NECESSARY, OF EXPANSIONIST MEASURES. THE REPORT
ALSO NOTES THAT THE MEASURES ACTUALLY TAKEN TO DATE (MAINLY
MONETARY) HAVE HAD ONLY LIMITED EFFECT IN CONTROLLING INFLATION.
THE REPORT THEN SUGGESTS THAT THE TIME HAS NOW COME FOR
A MODIFICATION OF THIS POLICY IN THE DIRECTION OF A
MILDLY EXPANSIONARY (BUT SELECTIVE) PROGRAM. THIS IS WARRANTED
NEW, ACCORDING TO THE REPORT, BECAUSE BELGIAN PRODUCTION FACI-
LITIES ARE CURRENTLY SERIOUSLY UNDERUTILIZED (74 PERCENT OF
CAPACITY) AND BELGIUM WOULD NOT OTHERWISE BE READY TO PROFIT FROM
THE GROWTH IN THE GERMAN ECONOMY (BELGIUM'S MAJOR FOREIGN MARKET)
WHICH THE AUTHORS OF THE REPORT EXPECT TO BOOM AGAIN IN THE
SECOND HALF OF THIS YEAR.

5. THE REPORT RECOGNIZES THAT WITH EVEN A MILDLY
EXPANSIONARY POLICY IN BELGIUM, THERE IS A REAL DANGER OF NEW
INFLATIONARY PRESSURES BUT THE AUTHORS OF THE REPORT BELIEVE
THAT IF FISCAL POLICY IS USED APPROPRIATELY TO INSURE THAT THE
EXPANSIONARY BOOST HITS PRODUCTION BEFORE IT FLOWS INTO INDIVIDUAL
INCOMES, THE EFFECT WILL NOT BE SERIOUSLY INFLATIONARY UNDER
CURRENT CIRCUMSTANCES. TO INSURE THESE DESIRABLE EFFECTS, THE
LOUVAIN INSTITUE SIMULTANEOUSLY CALLS FOR MORE CONTROL ON BUDGET
EXPENDITURES AND A SLIGHT EASING OF BELGIUM'S TIGHT MONETARY
CONTROLS. THE INSTITUE'S REPORT OPPOSES PRICE CONTROLS AND ANY
DEVALUATION OF THE BELGIAN FRANC.

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6. COMMENT: ALTHOUGH THESE TWO SWALLOWS DO NOT ALONE MAKE
A SUMMER'S EXPANSIONARY ECONOMIC PROGRAM, THEY SUGGEST THAT
THE CVP'S THINKING MAY BE MOVING TOWARD REDUCING THE PRESENT
GOVERNMENT'S CURRENT EMPHASIS ON FIGHTING INFLATION AND TOWARDS
A MOVE FOR A MODERATELY EXPANSIONIST ECONOMIC POLICY DURING THE
REMAINDER OF 1975.

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